

Regional Agenda

World Economic Forum Strategic Dialogue on the Future of Mongolia

Ulaanbaatar, Mongolia 14-15 September 2013



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Preface



Børge Brende,
Managing
Director and
Member of the
Managing Board,
World Economic
Forum



Kristel Van der
Elst,
Senior Director,
Head of Strategic
Foresight, World
Economic Forum

Mongolia is one of the world's fastest growing economies. In 2011, its gross domestic product (GDP) grew an astonishing 17.5%; growth for 2013 is projected at the still astounding rate of 13%. Over the last five years, inflows of foreign direct investment have increased more than eighteen-fold. It is a thriving democracy; the country's June presidential elections were widely described as free and fair.

The country has a dynamic mining industry, driven by some of the world's largest reserves of copper, coal, rare earth elements and uranium. And its proximity to some of the world's biggest markets – not just China and the Russian Federation but also South Korea and Japan – could prove transformational.

Mongolia shows impressive potential and a strong commitment to developing its economy based on its natural endowment of resources and the skills and ambitions of its people.

Despite these positive foundations, Mongolia is at a crucial turning point. Its future prosperity depends on highly uncertain drivers of change in the region and beyond, including the cost of borrowing, the extent of demand for resources, geopolitical relations in north-east Asia and increased competition for mining investments.

The implications of these factors are being explored through the World Economic Forum's Scenarios for Mongolia project, of which this Strategic Dialogue on the Future of Mongolia is an essential part. By bringing together local and international public and private sector stakeholders, the future of the country is being explored and forged. The outcomes of this Strategic Dialogue will be incorporated into final project outcomes that will be presented at the World Economic Forum Annual Meeting 2014 in Davos-Klosters in January.

Scenarios for Mongolia

Over the past six months, the World Economic Forum has gathered approximately 150 local and international stakeholders and experts to reflect on Mongolia's economic future. The Forum's Strategic Dialogue on the Future of Mongolia, an interactive discussion that took place in Ulaanbaatar on 14 and 15 September 2013, featured representatives from government, business, the media and civil society. The goal of the meeting was to examine a set of scenarios to discuss options for sustainable and inclusive long-term growth in the country.

Critical to achieving this growth is a set of strategic decisions the country must make. These include how the development of the mining industry and its potential revenues should be managed to maximize their benefit to the country; what forms of diversification should be pursued and how; and what relationships for trade and investment must be pursued to achieve both. Given the long-term consequences of these decisions, scenarios help develop robust responses and policies not only for the current context but also for the future.

The scenarios explore a number of critical uncertainties impacting Mongolia's future development. As the world slowly moves out of the biggest recession in decades, economies – especially in Europe – must deleverage.

The era of 5% GDP growth that the world had grown accustomed to is over; the rate is likely to remain close to 3 to 4% for the foreseeable future, as suggested by the Forum's Chairman, Professor Klaus Schwab. Slowed growth could be exacerbated in Asia by geopolitical tensions and more modest growth expectations in China. These factors could impact the demand for Mongolia's minerals and increase competition for investment in mining and other industries.

On the other hand, China's urbanization rates could continue to drive significant demand for Mongolia's main minerals (copper and metallurgical coal). Approximately 400 million people in China are expected to move to its cities over the next decade alone. In addition, increasing collaboration in north-east Asia could lead to policies that spur cross-border investments and the opening up of new market opportunities for Mongolian minerals and other diversified products and services.

These uncertainties will shape how easy or difficult it will be for the country to produce and sell its main mineral resources and will thus impact the extent to which all Mongolians will benefit from these assets and the degree to which Mongolia will succeed in diversifying its economy.



01: H.E. Mr Tsakhiagiin Elbegdorj, President of Mongolia
02: Professor Klaus Schwab, Founder and Executive Chairman, World Economic Forum

Today's Context

In his opening remarks, President Tsakhiagiin Elbegdorj drew attention to the immediate challenges and difficulties his country faces. Inflation, at 8.3% year-on-year in July, is high compared to that in other emerging nations – despite having dropped 50% since last year. In addition, the currency's exchange rate has deteriorated.

However, the most difficult challenge involves government policy to balance the needs of the local population with those of foreign direct investors. “Investors who have come to invest in Mongolia know that investment related

laws have not always been welcoming,” the President said. He emphasized the importance of regaining the trust and confidence of those who are considering investing in Mongolia and of those who had previously invested but then left the country. “We have to work with such intensity that those who left will come back,” he said.

To discuss a new set of investment laws, a special session of parliament took place the day after the Strategic Dialogue, specifically timed to incorporate the outcomes of the meeting.



- 01:** Stephen Groff, Vice President, Asian Development Bank; Lakshmi Boojo, Director, Economic Policy and Competitiveness Research Center, Mongolia; Baabar Bat-Erdeniin Batbayar, Independent Political and Economic Columnist; Jargalsaikhan Dambadarjaa Economist, Columnist, TV interview “de facto” host, Mongolia
- 02:** H.E. Mr Yasutoshi Nishimura, Senior Vice-Minister of the Cabinet Office, Cabinet office of Japan
- 03:** Denis Simonneau, Member of the Executive Committee, European and International Relations, GDF Suez
- 04:** Participants

Exploring Opportunities

The frank, and wide-ranging, discussions of Mongolia's challenges also included an examination of economic opportunities and how the country can develop them. While seeking to benefit from its significant mining exports, Mongolia has the opportunity to use these revenues (the country holds mineral resources estimated to be worth US\$ 1.3 trillion) to diversify its economy and create the potential for sustainable, long-term growth.

The World Economic Forum Strategic Dialogue on the Future of Mongolia provided a starting point from which the country's major domestic and foreign stakeholders can shift the national discourse from that centred on mining challenges and opportunities to a broader discussion in which economic diversification takes centre stage.

Questions remain on how best to diversify the economy and the government's role in the process. Some participants saw government as having a proactive role in identifying and championing particular industries for investment and development. Others saw the role of government limited to creating the institutional environment that allows new industries to bud.

There is no quick answer and the best approach may be a complex mixture of the two. However, what is certain is that the country's successful development will require the involvement of stakeholders from across industries, the public sector, academia and civil society. Close collaboration with neighbours in north-east Asia will also be necessary.



01: Fadi Farra, Director, Whiteshield Partners Limited, United Kingdom

02: Participants

03: Fulai Sheng, Head of the Research and Partnerships Unit of UNEP, Technical Manager of the UNEP-led Green Economy Initiative, Switzerland

04: Participants

Looking Ahead: Inclusive and Sustainable Growth

Finally, the discussions during the Strategic Dialogue served as a reminder that inclusive growth – growth that benefits all Mongolians – is essential for the future and stability of the country. Economic growth is important, but so is growth that leads to increased quality of life for the population. Social inequality can drive dissatisfaction and lead to social unrest. This can create a vicious cycle with social unrest driving away essential investment that not only brings in capital but also contributes to education and the development of new skills.

However, Mongolia has successfully faced similar challenges in the past. No one could have imagined the transformation over the past 20 years. Even more is possible over the next few decades.

At the World Economic Forum Annual Meeting 2014 in Davos-Klosters, Mongolia's political and economic leaders will again meet with a diverse community of international businesses, public sector officials and civil society representatives for the public launch of the Scenarios for Mongolia official report. The aim of the partnership between Mongolia and the World Economic Forum is for the scenarios to be used as a tool for public discourse, helping Mongolia and its key stakeholders shape the transformation that is under way in this changing and increasingly connected emerging economy.



01: Graeme Hancock, President and Chief Representative, Mongolia, Anglo American Development LLC

02: Participants

03: H.E. Mr Davaajav Gankhuyag, Minister of Mining, Mongolia; Børge Brende, Managing Director and Member of the Managing Board, World Economic Forum

04: Stephen Groff, Vice President, Asian Development Bank; H.E. Mr Yasutoshi Nishimura, Senior Vice-Minister of the Cabinet Office, Cabinet office of Japan; H.E. Mr Shin Bong-Kil, Ambassador for Northeast Asian Regional Cooperation, Ministry of Foreign Affairs of the Republic of Korea; Denis Simonneau, Member of the Executive Committee, European and International Relations, GDF Suez



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World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744

contact@weforum.org
www.weforum.org